

**REPORT OF THE AUDIT OF THE
MADISON COUNTY
CLERK**

**For The Year Ended
December 31, 2005**



**CRIT LUALLEN
AUDITOR OF PUBLIC ACCOUNTS
www.auditor.ky.gov**

**105 SEA HERO ROAD, SUITE 2
FRANKFORT, KY 40601-5404
TELEPHONE (502) 573-0050
FACSIMILE (502) 573-0067**

EXECUTIVE SUMMARY

AUDIT EXAMINATION OF THE MADISON COUNTY CLERK

**For The Year Ended
December 31, 2005**

The Auditor of Public Accounts has completed the Madison County Clerk's audit for the year ended December 31, 2005. Based upon the audit work performed, the financial statements present fairly in all material respects, the revenues and expenditures of the County Clerk and the revenues, expenditures, and fund balances of the County Clerk's operating fund and county fund with the State Treasurer in conformity with the regulatory basis of accounting.

Financial Condition:

A fee official in counties with a population over 70,000 has two funds established with the state for the deposit of fees collected. Seventy-five percent (75%) of the fees collected are deposited in a County Clerk's operating fund and used for office expenses of the fee official. The remaining twenty-five percent (25%) of fees collected are deposited to the county government fund and paid quarterly to the county government. These funds are closed at the end of each four-year term by paying the balances to the respective county government.

The Madison County Clerk had total receipts of \$18,057,407, which was a \$1,504,001 increase from the prior year. Except for reimbursed expenses in the amount of \$30,288, the clerk paid 25% of receipts to the Madison County Fiscal Court in the amount of \$391,494. This was an increase of \$13,157 from the prior year. In addition, disbursements increased by \$1,474,784.

Debt Obligations:

The County Clerk was committed to two lease and service agreements. The remaining balance of these agreements totaled \$253,985 as of December 31, 2005.

Report Comments:

- The County Clerk Should Maintain Supporting Documentation For Year End Accounts Receivable Balance
- The County Clerk Should Have A Written Agreement To Protect Deposits
- The County Clerk's 75% Fund Has A Deficit Balance

Deposits:

The County Clerk should have a written agreement to protect deposits.

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CRIT LUALLEN
AUDITOR OF PUBLIC ACCOUNTS

The Honorable Kent Clark, Madison County Judge/Executive
Honorable William E. Gabbard, Madison County Clerk
Members of the Madison County Fiscal Court

Independent Auditor's Report

We have audited the accompanying statement of revenues and expenditures - regulatory basis of the County Clerk of Madison County, Kentucky, and the statement of revenues, expenditures, and fund balances of the County Clerk's operating fund and county fund with the State Treasurer - regulatory basis for the year ended December 31, 2005. These financial statements are the responsibility of the County Clerk. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America, the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States, and the Audit Guide for County Fee Officials issued by the Auditor of Public Accounts, Commonwealth of Kentucky. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

As described in Note 1, the County Clerk prepares the financial statements on a regulatory basis of accounting that demonstrates compliance with the laws of Kentucky, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America.

In our opinion, the accompanying financial statements referred to above present fairly, in all material respects, the revenues, expenditures, and fund balances of the County Clerk's operating fund and county fund with the State Treasurer for the year ended December 31, 2005, in conformity with the regulatory basis of accounting described in Note 1.

In accordance with Government Auditing Standards, we have also issued our report dated August 7, 2006 on our consideration of the County Clerk's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be considered in assessing the results of our audit.



The Honorable Kent Clark, Madison County Judge/Executive
Honorable William E. Gabbard, Madison County Clerk
Members of the Madison County Fiscal Court

Based on the results of our audit, we have presented the accompanying comments and recommendations, included herein, which discusses the following report comments:

- The County Clerk Should Maintain Supporting Documentation For Year End Accounts Receivable Balance
- The County Clerk Should Have A Written Agreement To Protect Deposits
- The County Clerk's 75% Fund Has A Deficit Balance

This report is intended solely for the information and use of the County Clerk and Fiscal Court of Madison County, Kentucky, and the Commonwealth of Kentucky and is not intended to be and should not be used by anyone other than these specified parties.

Respectfully submitted,

A handwritten signature in black ink, appearing to read "Crit Luallen", with a long horizontal flourish extending to the right.

Crit Luallen
Auditor of Public Accounts

Audit fieldwork completed -
August 7, 2006

MADISON COUNTY
WILLIAM E. GABBARD, COUNTY CLERK
STATEMENT OF REVENUES AND EXPENDITURES - REGULATORY BASIS

For The Year Ended December 31, 2005

Revenues

State Fees For Services		\$	28,427
Licenses and Taxes:			
Motor Vehicle-			
Licenses and Transfers	\$	1,750,666	
Usage Tax		8,650,175	
Tangible Personal Property Tax		5,257,596	
Notary Fees		29,134	
Lien Release Fees		19,133	
Other-			
Fish and Game Licenses		10,754	
Marriage Licenses		21,183	
Occupational Licenses		2,422	
Miscellaneous Fees		1,800	
Deed Transfer Tax		420,314	
Delinquent Taxes		1,289,732	17,452,909
Fees Collected for Services:			
Recordings-			
Deeds, Easements, and Contracts		56,649	
Real Estate Mortgages		182,345	
Chattel Mortgages and Financing Statements		211,989	
All Other Recordings		84,831	
Charges for Other Services-			
Copywork		30,678	566,492
Other:			
Miscellaneous			5,824
Interest Earned			3,755
Total Revenues		\$	18,057,407

The accompanying notes are an integral part of the financial statements.

MADISON COUNTY
WILLIAM E. GABBARD, COUNTY CLERK
STATEMENT OF REVENUES AND EXPENDITURES - REGULATORY BASIS
For The Year Ended December 31, 2005
(Continued)

Expenditures

Payments to State:

Motor Vehicle-

Licenses and Transfers	\$ 1,307,708	
Usage Tax	8,380,036	
Tangible Personal Property Tax	1,864,440	
Licenses, Taxes, and Fees-		
Delinquent Tax	147,057	
Legal Process Tax	67,151	
Miscellaneous Fees	<u>12,652</u>	\$ 11,779,044

Payments to Fiscal Court:

Tangible Personal Property Tax	359,043	
Delinquent Tax	100,505	
Deed Transfer Tax	<u>399,140</u>	858,688

Payments to Other Districts:

Tangible Personal Property Tax	2,822,102	
Delinquent Tax	<u>736,118</u>	3,558,220

Payments to Sheriff 7,083

Payments to County Attorney 192,610

Other Charges-

Refunds	31,257	
Bank Charges	5	
Miscellaneous	<u>33,866</u>	<u>65,128</u>

Total Expenditures \$ 16,460,773

Net Revenues 1,596,634

Payments to State Treasurer:

75% Operating Fund	1,204,767	
25% County Fund	<u>391,494</u>	<u>1,596,261</u>

Balance Due at Completion of Audit \$ 373

The accompanying notes are an integral part of the financial statements.

MADISON COUNTY
 WILLIAM E. GABBARD, COUNTY CLERK
 STATEMENT OF REVENUES, EXPENDITURES, AND
 FUND BALANCES OF THE COUNTY CLERK'S OPERATING FUND
AND COUNTY FUND WITH THE STATE TREASURER - REGULATORY BASIS

For The Year Ended December 31, 2005

	75% Operating Fund	25% County Fund	Totals
Fund Balance - January 1, 2005	\$ (246,787)	\$	\$ (246,787)
<u>Revenues</u>			
Fees Paid to State - Operating Funds (75%)	1,204,767		1,204,767
Fees Paid to State - County Funds (25%)		391,494	391,494
Total Funds Available	957,980	391,494	1,349,474
<u>Expenditures</u>			
Payments to Madison County Fiscal Court		391,494	391,494
Personnel Services-			
County Clerk's Statutory Maximum	83,040		83,040
County Clerk's Expense Allowance	3,600		3,600
House Bill 810 Training	2,395		2,395
Deputies' Salaries	750,377		750,377
Employee Benefits-			
Employer's Share Social Security	57,862		57,862
Employer's Share Retirement	79,534		79,534
Employer's Paid Health Insurance	76,170		76,170
Contracted Services-			
Office Repairs and Upkeep	608		608
Copy Machine Maintenance	11,679		11,679
Tax Bill Preparation	8,331		8,331
Miscellaneous	21,114		21,114
Materials and Supplies-			
Office Supplies	22,540		22,540

The accompanying notes are an integral part of the financial statements.

MADISON COUNTY
WILLIAM E. GABBARD, COUNTY CLERK
STATEMENT OF REVENUES, EXPENDITURES, AND
FUND BALANCES OF THE COUNTY CLERK'S OPERATING FUND
AND COUNTY FUND WITH THE STATE TREASURER - REGULATORY BASIS
For The Year Ended December 31, 2005
(Continued)

	75% Operating Fund	25% County Fund	Totals
<u>Expenditures</u> (Continued)			
Other Charges-			
Conventions and Travel	\$ 6,362	\$	\$ 6,362
Dues	2,850		2,850
Postage	6,506		6,506
Books and Maps	27,442		27,442
Miscellaneous	41,088		41,088
Capital Outlay-			
Computer Equipment and Software	148,073		148,073
Total Expenditures	1,349,571	391,494	1,741,065
Fund Balance - December 31, 2005	\$ (391,591)	\$ 0	\$ (391,591)

The accompanying notes are an integral part of the financial statements.

MADISON COUNTY
NOTES TO THE FINANCIAL STATEMENTS

December 31, 2005

Note 1. Summary of Significant Accounting Policies

A. Fund Accounting

A fee official uses a fund to report on the results of operations. A fund is a separate accounting entity with a self-balancing set of accounts. Fund accounting is designed to demonstrate legal compliance and to aid financial management by segregating transactions related to certain government functions or activities.

A fee official uses a fund for fees to account for activities for which the government desires periodic determination of the excess of revenues over expenditures to facilitate management control, accountability, and compliance with laws.

B. Basis of Accounting

KRS 64.820 directs the fiscal court to collect any amount due from the County Clerk as determined by the audit.

KRS 64.350 establishes that a fee official in counties with a population over 70,000 has two funds with the State Treasurer for the deposit of fees collected. Seventy-five percent (75%) of the fees collected is deposited in a County Clerk's operating fund and used for office expenses of the fee official. The remaining twenty-five percent (25%) of fees collected is deposited to the county fiscal court fund and paid to the fiscal courts, urban-county governments, or consolidated local governments of the respective counties quarterly no later than April 15, July 15, October 15, and January 15. These funds are closed at the end of each official term by paying the balances to the respective county government.

The financial statements have been prepared on a regulatory basis of accounting, which demonstrates compliance with the laws of Kentucky and is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America. Under this regulatory basis of accounting, revenues and expenditures are generally recognized when cash is received or disbursed with the exception of accrual of the following items (not all-inclusive), at December 31:

- Interest receivable
- Collection on accounts due from others for 2005 services
- Reimbursements for 2005 activities
- Payments due other governmental entities for December tax and fee collections
- Payroll expenditures incurred but not paid
- Payments due vendors for goods or services provided in 2005

The Attorney General issued a letter which stated that some revenues of the fee official offices could be considered reimbursed expenses. All reimbursed expenses are treated as revenue in the 75 percent fund.

MADISON COUNTY
NOTES TO THE FINANCIAL STATEMENTS
December 31, 2005
(Continued)

C. Cash and Investments

At the direction of the fiscal court, KRS 66.480 authorizes the County Clerk's office to invest in the following, including but not limited to, obligations of the United States and of its agencies and instrumentalities, obligations and contracts for future delivery or purchase of obligations backed by the full faith and credit of the United States, obligations of any corporation of the United States government, bonds or certificates of indebtedness of this state, and certificates of deposit issued by or other interest-bearing accounts of any bank or savings and loan institution which are insured by the Federal Deposit Insurance Corporation (FDIC) or which are collateralized, to the extent uninsured, by any obligation permitted by KRS 41.240(4).

Note 2. Employee Retirement System

The county officials and employees have elected to participate in the County Employees Retirement System (CERS), pursuant to KRS 78.530 administered by the Board of Trustees of the Kentucky Retirement Systems. This is a cost-sharing, multiple-employer, defined benefit pension plan that covers all eligible full-time employees and provides for retirement, disability, and death benefits to plan members.

Benefit contributions and provisions are established by statute. Nonhazardous covered employees are required to contribute 5.0 percent of their salary to the plan. The county's contribution rate for nonhazardous employees was 8.48 percent for the first six months and 10.98 percent for the last six months of the year.

Benefits fully vest on reaching five years of service for nonhazardous employees. Aspects of benefits for nonhazardous employees include retirement after 27 years of service or age 65.

Historical trend information pertaining to CERS' progress in accumulating sufficient assets to pay benefits when due is presented in the Kentucky Retirement Systems' annual financial report which is a matter of public record. This report may be obtained by writing the Kentucky Retirement Systems, 1260 Louisville Road, Frankfort, Kentucky 40601-6124, or by telephone at (502) 564-4646.

Note 3. Deposits

The County Clerk maintained deposits of public funds with depository institutions insured by the Federal Deposit Insurance Corporation (FDIC) as required by KRS 66.480(1)(d). According to KRS 41.240(4), the depository institution should pledge or provide sufficient collateral which, together with FDIC insurance, equals or exceeds the amount of public funds on deposit at all times. In order to be valid against the FDIC in the event of failure or insolvency of the depository institution, this pledge or provision of collateral should be evidenced by an agreement between the County Clerk and the depository institution, signed by both parties, that is (a) in writing, (b) approved by the board of directors of the depository institution or its loan committee, which approval must be reflected in the minutes of the board or committee, and (c) an official record of the depository institution. These requirements were not met, as the County Clerk did not have a written agreement with the bank.

MADISON COUNTY
NOTES TO THE FINANCIAL STATEMENTS
December 31, 2005
(Continued)

Note 3. Deposits (Continued)

Custodial Credit Risk - Deposits

Custodial credit risk is the risk that in the event of a depository institution failure, the County Clerk's deposits may not be returned. The County Clerk does not have a deposit policy for custodial credit risk but rather follows the requirements of KRS 41.240(4). As of December 31, 2005, the County Clerk's bank balance of \$587,858 was exposed to custodial credit risk as follows:

- No Written Collateral Security Agreement - \$487,858

Note 4. Lease

The office of the County Clerk was committed to hardware, software, and maintenance lease and service agreements with Software Management and a lease agreement with Avaya. The total remaining balance of the agreements with Software Management and Avaya were \$252,857 and \$1,128 respectively, as of December 31, 2005.

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COMMENTS AND RECOMMENDATIONS

MADISON COUNTY
WILLIAM E. GABBARD, COUNTY CLERK
COMMENTS AND RECOMMENDATIONS

For The Year Ended December 31, 2005

STATE LAWS AND REGULATIONS:

The County Clerk Should Have A Written Agreement To Protect Deposits

The County Clerk maintained deposits of public funds with depository institutions insured by the Federal Deposit Insurance Corporation (FDIC). According to KRS 66.480(1)(d) and KRS 41.240(4), the depository institution should pledge or provide sufficient collateral which, together with FDIC insurance, equals or exceeds the amount of public funds on deposit at all times. As of December 31, 2005, the County Clerk had bank deposits of \$587,858; FDIC insurance of \$100,000; and collateral pledged or provided of \$1,435,350. Even though the County Clerk obtained sufficient collateral of \$1,435,350, there was no written agreement between the County Clerk and the depository institution, signed by both parties, securing the County Clerk's interest in the collateral. We recommend the County Clerk enter into a written agreement with the depository institution to secure the County Clerk's interest in the collateral pledged or provided by the depository institution. According to federal law, 12 U.S.C.A. § 1823(e), this agreement, in order to be recognized as valid by the FDIC, should be (a) in writing, (b) approved by the board of directors of the depository institution or its loan committee, which approval must be reflected in the minutes of the board or committee, and (c) an official record of the depository institution.

County Clerk's Response: The County Clerk and Madison Bank were not aware of such a document; however the bank has agreed to prepare one at this time.

The County Clerk's 75% Fund Has A Deficit Balance

The clerk's 75% account with the state has a deficit balance of (\$391,591) as of December 31, 2005. This account has to be settled at the end of the clerk's term, which ends at the end of 2006. The clerk informed us he has spoken with the fiscal court and they have agreed to use the 25% payments to pay off the deficit when it is time to settle this account.

County Clerk's Response: As stated above the fiscal court was made aware of the deficit within the first six months of the term, and have agreed to pay by the end of the term.

INTERNAL CONTROL - REPORTABLE CONDITION AND MATERIAL WEAKNESS:

The County Clerk Should Maintain Supporting Documentation For Year End Accounts Receivable Balance

During the audit, we noted the following weaknesses relating to accounts receivable:

- The County Clerk was unable to provide supporting documentation for the accounts receivable balance for year-end. The clerk should maintain supporting documentation for this balance. Due to the system utilized by the clerk, this amount was not supported after year-end adjustments were made. Therefore, for future reporting, this number needs to be supported and the reports for this balance at year-end maintained.

MADISON COUNTY
WILLIAM E. GABBARD, COUNTY CLERK
COMMENTS AND RECOMMENDATIONS
For The Year Ended December 31, 2005
(Continued)

The County Clerk Should Maintain Supporting Documentation For Year End Accounts Receivable
Balance (Continued)

- The County Clerk and deputy clerks were allowed to charge their own personal vehicle license fees and taxes, and other service (Copies, recordings, etc). The clerk stated the employees did not have to have any approval to charge. These charges were found to be anywhere from 30 to 120 days past due.

We recommend the County Clerk maintain proper documentation of the accounts receivable balances at year-end. Also we recommend the County Clerk and his employees not be allowed to charge their personal fees and taxes and the County Clerk monitor the accounts receivable to ensure this practice has stopped.

County Clerk's Response: In the future we will print a year-end receivable report and keep for auditors. Employee charges are not a common practice and will not be allowed at all in the future.

REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND
ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF THE FINANCIAL
STATEMENTS PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS



CRIT LUALLEN
AUDITOR OF PUBLIC ACCOUNTS

The Honorable Kent Clark, Madison County Judge/Executive
Honorable William E. Gabbard, Madison County Clerk
Members of the Madison County Fiscal Court

Report On Internal Control Over Financial Reporting And
On Compliance And Other Matters Based On An Audit Of The Financial
Statements Performed In Accordance With Government Auditing Standards

We have audited the financial statements - regulatory basis of the Madison County Clerk for the year ended December 31, 2005, and have issued our report thereon dated August 7, 2006. The County Clerk's financial statements are prepared in accordance with a basis of accounting other than generally accepted accounting principles. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Madison County Clerk's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide an opinion on the internal control over financial reporting. However, we noted certain matters involving the internal control over financial reporting and its operation that we consider to be reportable conditions. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect the entity's ability to record, process, summarize, and report financial data consistent with the assertions of management in the financial statements. The reportable condition is described in the accompanying comments and recommendations.

- The County Clerk Should Maintain Supporting Documentation For Year End Accounts Receivable Balance

A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, we consider the reportable condition described above to be material weakness.



Report On Internal Control Over Financial Reporting And
On Compliance And Other Matters Based On An Audit Of The Financial
Statements Performed In Accordance With Government Auditing Standards
(Continued)

Compliance And Other Matters

As part of obtaining reasonable assurance about whether the Madison County Clerk's financial statements for the year ended December 31, 2005, are free of material misstatement, we performed tests of compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed instances of noncompliance or other matters that are required to be reported under Government Auditing Standards and which are described in the accompanying comments and recommendations.

- The County Clerk Should Have A Written Agreement To Protect Deposits
- The County Clerk's 75% Fund Has A Deficit Balance

This report is intended solely for the information and use of management and the Kentucky Governor's Office for Local Development and is not intended to be and should not be used by anyone other than these specified parties.

Respectfully submitted,



Crit Luallen
Auditor of Public Accounts

Audit fieldwork completed -
August 7, 2006

